

Semiannual Report to Congress on Audit Follow-up

**CORPORATION FOR
NATIONAL
AND
COMMUNITY
SERVICE**

October 1, 1993 - March 31, 1994

Corporation Semiannual Report Number 1

**Prepared by the Office of the
Chief Financial Officer**

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EXECUTIVE SUMMARY

This is the first semiannual report to the Congress on management decisions and final actions taken by the Corporation for National and Community Service and the former ACTION Agency in response to audit reports issued by the Office of the Inspector General. The report covers the 6-month period ending March 31, 1994, and is required by the Inspector General Act Amendments of 1988 (P.L. 100-504).

Management is required to report data on three specific areas: (1) the number of audit reports and the dollar value of disallowed costs, (2) the number of audit reports and the dollar value of recommendations that funds be put to better use, and (3) reports on which management decisions that have been made but final action has not been taken 1 year after the management decisions were made. Management may also provide comments on the Inspector General's report or on audit follow-up in general.

On October 1, 1993, the Corporation for National and Community Service (CNCS) was created. ACTION officially became part of the Corporation on April 4, 1994. The Corporation consists of three former entities--the White House Office of National Service, the Commission on National and Community Service, and ACTION. Since December 14, 1993, ACTION's former Inspector General has been authorized to act as Inspector General to the entire Corporation. Consistent with the Inspector General's report, this report includes audit activities within ACTION prior to that date and activities of both the Corporation and ACTION since that date.

The Corporation has made a top priority both safeguarding the government's resources and correcting weaknesses in a timely manner. Management is committed to issuing management decisions within 6 months of the dates of audit reports and maintaining a quality system for assuring follow-up on corrective actions. Corporation audits are currently being monitored in a computerized tracking system. Revised policies and procedures for audit follow-up are being prepared which soon will be implemented Corporation-wide.

Highlights

- By the end of the reporting period, management decisions had been made on all 45 audit reports that had been issued during the preceding 6 months. There were no overdue management decisions.
- These 45 reports included 42 (or 94%) which had no disallowed costs. (One of these 42 was a result of an appeal decision).

- None of the 39 audit reports issued during the period had recommendations that funds be put to better use.
- For the reports on which management decisions were made, management officials sustained a total of \$73,118 in disallowed costs of the \$122,033 in costs that had been questioned by the Office of the Inspector General. A decision by the Audit Appeals Official which allowed certain salary costs for a full time ACTION project director reduced the total for disallowed costs to \$21,988.
- Of the 20 reports that were pending final action one year or more after the management decisions was issued, two have since been resolved and 12 have been forwarded to the Department of Justice for further action. Of the remaining six, only one has disallowed costs.

The following three sections discuss the audit information that is specifically required by the legislation. Tables showing the data are found in the back of this report. The final section addresses some audit-related items in the Inspector General's semiannual report.

AUDIT REPORTS WITH MANAGEMENT DECISIONS

(see Table 1)

Although the term "resolution" has various meanings throughout the government, the Corporation considers an audit report to be resolved--or closed--when all corrective actions have been completed. The reporting period began with 30 audit reports for which there had been a management decision but which had no final action. These reports represented \$547,500 in disallowed costs. Nearly half of the 30 are with the Department of Justice for write-off or litigation. However, they comprised much more than half of the total disallowed costs at the beginning of the reporting period (\$484,200 or 89%).

During the period, 45 management decisions were made, disallowing \$73,100.

Also during the period, final action was taken on 45 audit reports. Forty-one of these had no disallowed costs; four made payments totaling \$5,900. One of the four had \$51,100 in disallowed costs overturned in an appeal decision.

The number of unresolved reports with management decisions which will be carried over to the next reporting period is 30. The \$563,600 in disallowed costs represented by those reports, once again, is primarily from debts that have been turned over to the Department of Justice.

AUDITS WITH MANAGEMENT DECISIONS AND RECOMMENDATIONS TO PUT FUNDS TO BETTER USE

(see Table 2)

There were no audit reports with recommendations to put funds to better use.

AUDITS THAT HAD NO FINAL ACTION WITHIN A YEAR OF A MANAGEMENT DECISION

(see Table 3)

Twenty audit reports remained open more than a year after the management decision was made. Twelve of these have been turned over to the Department of Justice for write-off or litigation and two have been resolved since the end of the reporting period. Of the remaining six, only one involves disallowed costs. The debt collection for that report is currently being pursued by a private debt collection agency and has been partially successful. All but approximate \$3,000 has been collected and returned to the government.

The other five audits were of the former ACTION Agency's internal operations. Resolution for all these involve producing policy and procedural directives. Completion of these particular corrective actions has been delayed by the merger of ACTION into the Corporation and the coordination and establishment of unified Corporation-wide policies and procedures. Final action for these internal audits are scheduled to be completed by the end of the fiscal year.

COMMENTS ON THE INSPECTOR GENERAL'S SEMIANNUAL REPORT

Audit Appeals

The Inspector General's report cited an appealed management decision with which the Inspector General did not agree. The revised management decision reversed a disallowance for more than \$50,000 in salary and benefits costs.

These costs for a full-time ACTION project director had been disallowed by auditors because, for a portion of the grant period, exception reporting had been used for recording the project director's time and attendance rather than daily personal activity sheets. These costs were subsequently allowed by the Audit Appeals Official based on additional documentation presented by the grantee and convincing evidence that the project director was in fact on the job and working diligently during the period when salary and benefit costs had been disallowed. The Agency's established procedures were followed by the Audit Appeals Officer in issuing the decision.

The Inspector General's semiannual report related this decision to a time five years ago when the Inspector General indicates that granting relief to grantees upon appeal was too common-place. Our position is that the government has an obligation to recover monies spent outside the scope of a grant, but it also has an obligation to grantees undertaking activities on our behalf to make decisions based on reasoned analysis of the merits of each case. To do otherwise is to challenge the legitimate expectation of grantees that they will be treated reasonably and fairly and to essentially make the appeals process hollow. Management will attempt to develop a meeting of the minds with the Office of the Inspector General on whether changes are needed in the audit resolution process, recognizing that some tension between auditors and managers can appropriately arise during audit appeals.

Prior Significant Unresolved Management Decision

The Inspector General's report discussed a corrective action for an internal audit that had not been completed, revising a grants management handbook. That publication has since been revised to bring it up to date by incorporating new Office of Management and Budget procedures, including revised application forms, and addressing various issues raised in Office of Inspector General audits. Additionally, while the handbook applies only to the National Senior Volunteer Corps and VISTA programs, references to the former ACTION agency have been deleted. The handbook will be distributed during the next reporting period.

CONCLUSION

The Corporation for National and Community Service is dedicated to maintaining an effective and efficient system for following up on audit findings and ensuring the proper use of public funds. Our intention is to continuing managing the system in a streamlined yet comprehensive manner. We also expect to revisit some aspects of the audit resolution system with the Inspector General to ensure its applicability to the broader environment of the Corporation.

More efficient and streamlined operations have recently been aided by improvements implemented following program reviews conducted by the Office of the Inspector General, e.g., reviews of VISTA project applications have been reduced through greater decentralization of decision making and multi-year grants for National Senior Volunteer Programs are now being used.

Finally, a provision of the National and Community Service Trust Act of 1993 specified the appointment by the President (with advice and consent of the U. S. Senate) of a Chief Financial Officer. During the reporting period, the President stated his intention to nominate Larry Wilson, formerly Director of the Office of Finance and Management for the Department of Agriculture, to this position. The Office of the Chief Financial Officer is exercising a broad oversight role with respect to financial management for the programs and operations (including National Service Trust Fund operations) of the Corporation.

FINAL ACTION TAKEN ON AUDIT REPORTS WITH DISALLOWED COSTS

(for the period October 1, 1993 - March 31, 1994)

	<u>Number of Audit Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with management decisions upon which final action had not been taken as of September 30, 1993.	30	547.5*
B. Audit reports upon which management decisions were made during the six-month reporting period.	28	73.1
C. Total audit reports with management decisions upon which final action was pending during the reporting period (total of A and B).	75	620.6
D. Audit reports upon which final action was taken during the reporting period (total of D.1. through D.4.).	45	57.0
1. Recoveries		
(a) Collections and offsets	4	5.9
(b) Property in lieu of cash	0	0
(c) Other	0	0
2. Write-offs	0	0
3. Audits with no disallowed costs	41	0
4. Adjustments to the disallowed costs resulting from one appeal decision		51.1
E. Audit reports with management decisions upon which no final action had been taken as of March 31, 1994.	30	563.6

* These disallowed costs are taken from the original management decisions and do not reflect revised figures resulting from appeals. Revised amounts will be noted in the reporting period in which the reports receive final action. This figure was adjusted to reflect \$291.6 of "tentative disallowed costs" which, after further review, were allowed.

Table 1.

AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE

(for the period October 1, 1993 - March 31, 1994)

	<u>Number of Audit Reports</u>	<u>Funds to be Put to Better Use (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	0
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period (Total of A and B)	0	0
D. Audit reports on which final action was taken during the period.	0	0
1. Value of recommendations that were completed.	0	0
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	0	0

Table 2.

Audits That Had No Final Action Within One Year of a Management Decision

(as of March 31, 1994)

None of the 20 audit reports in this table had a recommendation that funds be put to better use.

Audit Number	Auditee	Management Amount of		Reason No Final Action Was Taken by March 31, 1994
		Decision Date	Disallowed Costs	
88-10K & 88-10L	American Legion Post #23	6/15/88 6/15/88	\$ 38,347	Debt was forwarded to the Department of Justice on June 21, 1991.
88-20	Carson River Basin Council of Governments	9/15/88	45,057	Debt was forwarded to the Department of Justice on June 16, 1992.
87-I-01	St. Paul's AME Church	7/18/89	16,373	Debt was forwarded to the Department of Justice on July 25, 1991.
89-01	Villa Scalabrini Home for the Aged	11/20/89	182,602	Debt was forwarded to the Department of Justice on December 23, 1991.
89-08	Union Temple Baptist Church	9/21/89	15,987	Debt was forwarded to the Department of Justice on September 16, 1991.
89-41	Labor Agency of Metropolitan Washington, Inc.	3/23/90	172,774	Debt was forwarded to the Department of Justice on January 16, 1992.
88-19	Community Runaway and Youth Services	10/3/88	9,817	A private collection agency unsuccessfully attempted to collect this debt. The organization is no longer in business. Since the end of the reporting period, the Corporation has written off this debt.

Table 3.

Audit Number	Auditee	Management Amount of Decision Disallowed		Reason No Final Action Was Taken by March 31, 1994	
		Date	Costs		
90-PHN-06	Personal Computer Utilization and Acquisition	11/27/90	\$ 0		This operational audit involved no disallowed costs. Resolution will take place upon the issuance of policies and procedures, which should occur before the end of FY 1994.
90-R2I-31	Seneca Center	3/18/91	9,231		Private collection agency has been successful in collecting some of this debt. Continued efforts are being pursued.
91-R2I-01	Home of Mercy for the Aged, Inc.	4/10/91	3,702		Debt was forwarded to the Department of Justice on June 16, 1992.
92-04-01 92-04-02	Grandpeople, Inc.	3/31/92	67,893 49,363		This grantee is bankrupt. The Department of Justice is attempting to recover these debts through bankruptcy proceedings.
92-HQ-07	The VISTA Health Benefits Plan	8/20/92	291,576		This operational audit involved no disallowed costs. Resolution will take place upon the issuance of policies and procedures, which should occur during the next reporting period.
92-HQ-39	The Audit Resolution Tracking System	7/20/92	0		This audit was closed subsequent to the end of the reporting period. It involved no questioned costs.

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Audit Number	Auditee	Management Amount of Decision Disallowed		Date	Reason No Final Action Was Taken by March 31, 1994
		Costs	Costs		
92-06-75 92-06-76	Cameron Willacy Counties Community Projects	\$50,476 5,071		2/9/93 2/10/93	This grantee is bankrupt. The Department of Justice is attempting to recover these debts through bankruptcy proceedings.
92-10-59	The Corporation's Regional Office in Seattle	0		1/11/93	This operational audit involved no disallowed costs. Final action will occur with the establishment of an automated travel management system. The system should be fully implemented throughout the Corporation by the end of FY 1994.
92-HQ-05	The Foster Grandparent Program Grant-Making Delivery System	0		3/29/93	This operational audit involved no disallowed costs. Resolution involves the issuance of a handbook and reviewing/revising several policies & procedures. They are scheduled to be completed by the end of FY 1994.
92-HQ-57	The Procurement Process	0		2/26/93	This operational audit involved no disallowed costs. Resolution involves revising policies and procedures which are scheduled to be completed by the end of FY 1994.

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INDEX OF THE INSPECTOR GENERAL ACT REPORTING REQUIREMENTS

IG Act Reference	Reporting Requirements	Table
Section 5 (b)(1)	Comments determined appropriate by the agency head	pages 1 - 4
Section 5 (b)(2)(A-D)	Statistical tables showing the total number of audit reports and disallowed costs:	Table 1
	(A) for which final action had not been taken as of the commencement of the period;	Table 1, Item A
	(B) on which management decisions were made during the period;	Table 1, Item B
	(C) for which final action was taken during the period; and	Table 1, Item D
	(D) for which no final action has been taken by the end of the reporting period.	Table 1, Item E
Section 5 (b)(3)(A-D)	Recommendations from a management decision that funds be put to better use	Table 2
Section 5 (b)(4)(A-D)	List of audit reports on which final action had not been taken within a year of the management decision	Table 3